

Message Text

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SUBJ: EGYPT'S OPEN DOOR: STILL CLOSED TO FOREIGN BANKS

SUMMARY: DESPITE THEIR POTENTIAL IMPORTANCE AS A SOURCE OF INVESTMENT FUNDS AND AS A SYMBOL OF EGYPT'S NEW ECONOMIC ORIENTATION, FOREIGN BANKS HAVE NOT YET BEEN ALLOWED TO BEGIN FULL-SCALE OPERATIONS IN THE COUNTRY. THE BUREAUCRATIC CAUSES OF THE DELAY ARE AMENABLE TO FAIRLY PROMPT CORRECTION; THE POLITICO-ECONOMIC MAY REQUIRE MORE TIME. END SUMMARY.

1. THE PROSPECTS OF A RETURN TO THE EGYPTIAN SCENE OF FOREIGN BANKS, THE LAST OF WHICH DISAPPEARED IN THE WAVE OF NATIONALIZATIONS OF 1961, IS ONE OF THE MORE SIGNIFICANT ASPECTS OF THE ECONOMIC OPEN DOOR POLICY TO WHICH PRESIDENT SADAT HAS COMMITTED HIMSELF AND HIS NATION. IN ADDITION TO REPRESENTING AN IMPORTANT LIBERALIZATION OF THE ECONOMY IN THE BROADER SENSE, THE RESUMPTION OF OPERATIONS BY SUCH BANKS COULD SERVE AS A MAJOR MECHANISM FOR CHANNELING MUCH-NEEDED FOREIGN FUNDS, PARTICULARLY PETRODOLLARS,

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INTO THE COUNTRY. CONSIDERABLE ATTENTION WAS THEREFORE

GENERATED BY THE ANNOUNCEMENT DEPUTY PRIMIN HEGAZY
MADE LAST JULY, DURING SECRETARY SIMONS' VISIT, THAT
FOUR US BANKS HAD BEEN AUTHORIZED TO BEGIN OPERATIONS
(CHASE MANHATTAN, FNCB, AMERICAN EXPRESS, BANK OF
AMERICA). AS IS TOO OFTEN THE CASE, THE ANNOUNCEMENT
WAS BOTH A LITTLE PREMATURE AND A BIT OF AN OVERSTATEMENT;
THERE HAS BEEN VERY LITTLE PROGRESS AS YET TOWARD THE

FULL OPERATION OF ANY OF THE BANKS.

02. UNDER THE PROVISIONS OF THE NEW FOREIGN INVESTMENT
LAW, THERE ARE TWO BASIC TYPES OF BANKING ACTIVITIES
THAT CAN BE UNDERTAKEN: (A) FOREIGN CURRENCY ONLY,
LIMITED EITHER TO SERVING FOREIGN COMPANIES IN
THE FREE ZONES (OFF-SHORE OPERATIONS) OR THOSE MAKING
INVESTMENTS IN-COUNTRY; (B) BRANCH OPERATIONS IN FOREIGN
AND LOCAL CURRENCY. BANKS OPERATING IN THE LATTER
CATEGORY MUST BE JOINT VENTURES, WITH LOCAL CAPITAL
CONSTITUTING AT LEAST 51 PERCENT. THEORETICALLY, THE LOCAL
CAPITAL CAN BE PROVIDED BY ONE OF THE FOUR GOVERNMENT-
OWNED COMMERCIAL BANKS OR, A MORE DIFFICULT UNDERTAKING
UNDER PRESENT CIRCUMSTANCES, BY PRIVATE SOURCES.

3. SINCE THE INITIAL ANNOUNCEMENT, A NUMBER OF OTHER
BANKS HAVE APPEARED ON THE SCENE EITHER SINGLY OR IN
GROUPS, ALLEGEDLY EXPRESSING INTEREST IN THE VARIOUS
OPPORTUNITIES OFFERED HERE: BARCLAYS, FIRST NATIONAL
OF CHICAGO, LLOYDS, UNION DES BANQUES ARAB ET FRANCAISES, CREDIT
LYONNAIS, BANCO DI ROME. SOME OF
THEM HAVE SIGNED PROTOCOLS OF AGREEMENT WITH
LOCAL BANKS FOR JOINT VENTURES (CHASE MANHATTAN-
NATIONAL BANK OF EGYPT, FIRST OF CHICAGO AND UBAF-
MISR BANK, BARCLAYS AND ROMA-BANK OF CAIRO) AND
THE REST APPEAR TO BE LOOKING FOR PRIVATE PARTNERS.
AS FAR AS IS KNOWN, MOST OF THEM HAVE ALREADY
RECEIVED PERMISSION TO ENGAGE IN FOREIGN CURRENCY
OPERATIONS, BUT DESPITE THE FANFARE AND THE DELAY
NONE OF THEM HAS AS YET BEEN AUTHORIZED TO OPEN LOCAL
BRANCHES.

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4. THE CAUSES OF THE DELAY ARE ASSUMED TO BE TWO-FOLD.
FIRST, THERE ARE THE
BUREAUCRATIC PROBLEMS CAUSED BY
THE FACT THAT THE IMPLEMENTING REGULATIONS OF THE
NEW INVESTMENT LAW UNDER

WHICH THE BANKS WILL OPERATE
HAVE NOT YET BEEN ISSUED (AND MAY NOT BE READY FOR

ANOTHER FEW MONTHS). IN ADDITION

TO THE LACK OF
GUIDANCE AS TO HOW THE ARRANGEMENTS WILL WORK, THE
ABSENCE OF THE NEW REGULATIONS GIVES SOME OFFICIALS
IN THE CENTRAL BANK (A HOTBED OF CONSERVATISM) THE
OPPORTUNITY TO INSIST THAT THE OLD ONES STILL APPLY.
THUS THE QUESTION OF EQUITY CAPITAL POSED BY THE BANKING
AND CREDIT LAW OF 1957 HAS BEEN RAISED WITH RESPECT
TO THE FOREIGN BANKS ENGAGING IN OFFSHORE ACTIVITIES,
CAUSING FURTHER UNNECESSARY AND SPECIOUS CONFUSION.
ALL OF THIS IS, OF COURSE,
IN ADDITION TO THE NORMAL
GLACIAL PACE OF MATTERS ADMINISTRATIVE IN EGYPT.

5. SECONDLY, AND OF FAR GREATER IMPORTANCE IS THE
REPORTED RELUCTANCE OF AT LEAST PART OF THE GOE'S
BANKING SYSTEM TO OPEN THE WAY TO COMPETITION WITH
FOREIGN BANKS IN THE LOCAL MARKET. THIS RELUCTANCE
WOULD BE SOUNDLY SUPPORTED BY THOSE ELEMENTS IN EGYPT
THAT ARE OPPOSED TO OR EVEN DUBIOUS ABOUT THE OVERALL
ECONOMIC COURSE THAT SADAT HAS CHOSEN. THIS IS
PROBABLY THE KEY CAUSE OF THE LACK OF FORWARD MOVEMENT
IN BANKING, AS IT IS ELSEWHERE ON THE ECONOMIC AND
POLITICAL SCENE.

6. FOR THE LAST WEEK OR SO, THERE HAVE BEEN ARTICLES
IN THE PRESS REPORTING FIRST THAT SADAT, AS PART OF THE
SERIES OF MEETINGS HE HAD HELD
WITH VARIOUS REGIMENTS
OF
THE POPULATION, AND THEN HEGZAR, IS TO MEET WITH
MEMBERS OF THE BANKING COMMUNITY. THE ANNOUNCED
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PURPOSE OF THE SESSIONS IS TO CONSIDER, INTER ALIA,

THE ROLE OF THE SYSTEM IN ATTRACTING ARAB AND FOREIGN
CAPITAL, BUT IT IS EVIDENT THAT THE MATTERS DISCUSSED
ABOVE ARE INTENDED AS ONE OF THE MAIN TOPICS. IT

NOW APPEARS THAT HEGAZY WILL HEAD THE TASK, AND IN
THE NEAR FUTURE.

7. GIVEN THE GENTLE APPROACH THAT THE REGIME HAS
USED UNTIL NOW IN URGING ACCEPTANCE OF THE OPEN DOOR
POLICY, E.R. THE PEOPLES ASSEMBLY'S
MODIFICATION
OF
HEGAR'S

DRAFT INVESTMENT LAW, IT IS DIFFICULT TO
PREDICT THE OUTCOME OF THIS EFFORT. THE
ISSUE IS
OF CONSIDERABLE
POTENTIAL IMPORTANCE TO THE GOE,
T
ENOUGH TO PRODUCE FAIRLY PROMPT ACTION, BUT A FORM OF
COMPROMISE REFLECTING THE DESIRE TO ENCOURAGE RATHER
THAN FORCE COOPERATION IS THE MOST LIKELY OUTCOME.

8. WE THINK THAT THE GOVERNMENT, IN ORDER TO PERMIT
THE LOCAL SYSTEM TO PREPARE ITSELF FOR
THE CHANGE,
WILL
PROBABLY MOVE BY STAGES INTO THE NEW ERA. THE
FIRST STEP WILL BE REMOVAL OF ALL PRESENT OBSTACLES
TO OPERATION IN THE FOREIGN
CURRENCY AREAS. THIS
SHOULD BE ACCOMPLISHED RELATIVELY EASILY AND RATHER
QUICKLY-IN A MATTER OF WEEKS. LATER ON, PERHAPS IN

EARLY 1975, JOINT-VENTURE BRANCHES WILL BE PERMITTED
TO OPEN. THERE MAY BE SOME FORM OF RESTRICTION ON
THEIR ACTIVITIES IN THE EARLY STAGES, PARTICULARLY
IN THE LOCAL CURRENCY MARKETS, IN ORDER TO SOFTEN
THE EFFECTS OF THE FINAL STEP INTO FULL OPERATION.
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